

REPORT TO THE CITY COUNCIL

BY THE CITY INTERNAL AUDITOR

ANNUAL REPORT ON
OPERATIONS OF THE
INTERNAL AUDIT OFFICE
FOR FISCAL YEAR (FY) 2005

September 17, 2007



September 17, 2007

Councilman Calvin Lester
Chairman, Shreveport City Council

Dear Councilman Lester:

Subject: Annual Report on Internal Audit Office Operations for Fiscal Year (FY) 2005

This report is to provide the members of the Audit & Finance Committee and the City Council with information on the activities of the Internal Audit Office for FY 2005. The attached information describes audits and other projects and activities completed or initiated during FY 2005.

Please review the report. Should you have questions or comments, feel free to contact me.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

c: Audit and Finance Committee
 City Council Members
 Clerk of Council

INTERNAL AUDIT OFFICE
ANNUAL REPORT

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INTRODUCTION

The mission of the Office of Internal Audit is to provide independent and objective reviews and assessments of the City's activities, operations, financial systems, and internal controls.

The Office of Internal Audit seeks to assist management in:

- carrying out continuous quality improvement of department operations and programs;
- promoting operational effectiveness and efficiency;
- ensuring that adequate safeguards exist over City assets;
- ensuring adherence to City policies and procedures; and,
- investigating fraud, waste, and abuse.

The Office of Internal Audit accomplishes its mission by carrying out an annual audit plan that utilizes a combination of rotation and risk analysis to review critical areas of operations. To ensure the appropriate level of independence and objectivity, the City Internal Auditor reports to the Audit & Finance Sub-Committee of the City Council.

The Internal Audit Office FY 2005 Annual Report presents our service efforts and accomplishments. The Annual Report contains the following three parts:

- Part I: Audit Administration describes progress on audits performed by the Internal Audit Office.
- Part II: Non-Audit Activities provides information related to the Fraud Hotline, Special Projects, and Professional Development.
- Part III: Provides a brief conclusion highlighting a few of the future short and long-term projects currently under development.

PART I: AUDIT ADMINISTRATION

The work performed by the Internal Audit Office is guided by the annual audit plan. The plan outlines audit projects for the fiscal year. The following summarizes the current status (completed or in process) of each audit and project outlined in the plan, along with the budgeted versus actual hours.

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A. AUDITS COMPLETED

	<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>
IAR 600005-01: Review of Water and Sewerage Enterprise Fund Budgetary Fund Balance Reporting	*	150	*
IAR 010205-02: Audit of the Mayor's Office, Personnel Division	270	336	(66)
AA 2005-03: Auditing Alert, Inadequate Customer Service Response – Payment of City Property Taxes	*	40	*
IAR 140105-04: Audit of Regional Airport, Administration, Operations, and Maintenance Divisions	465	956	(491)
IAR 600005-05: Audit of the Department of Community Development Bureau of Code Enforcement, Weed Abatement Program	*	1390	*
IAR 050405-06: Audit of the Finance Department, Purchasing Division	310	570	(260)
AA 2005-07: Auditing Alert, Unauthorized Payment Centers for Water Bills	*	50	*
IAR 060105-08: Audit of the Police Department, Support Division City Jail Bureau	300	2458	(2158)
IAR 050205-09: Audit of the Department of Operational Services, Public Works Division, Permits and Inspections Bureau	490	771	(281)
SR 906005-10: Follow-Up on Shreveport Airport Authority Board Conflict of Interest	*	40	*
IAR 210105-11: Audit of the Northwest Louisiana Council of Governments	295	352	(57)
IAR 220805-12: Annual Follow-Up on the External Audit Management Letter for the Year Ended December 31, 2004	60	50	10
IAR 220705-13(a): 2005 Annual Audit Follow-Up	520	347	173
IAR 220705-13(b): Annual Status Report on City Operations	30	30	-0-

B. AUDITS/PROJECTS IN PROCESS:

	<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>	<u>EST. % OF COMPLETION</u>
Employee Retirement System	*	400	*	95%
Fixed Assets System	250	1373	(1123)	80%

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	<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>	<u>EST. % OF COMPLETION</u>
Finance – Risk Management	380	326	54	80%
DOS – Water&Sewer, Purification	384	358	26	70%
Shreve Memorial Library	665	685	(20)	40%
Shreveport Home Mortgage Authority	665	685	(20)	40%
SPAR-Recreation	40**	75	(35)	10%
Community Development – Adm/Fiscal	40**	5	35	10%
Fraud Hotline 04-009	*	363	*	60%

* Miscellaneous Audit/Unscheduled projects/Fraud Hotline.

** Budgeted time includes planning hours only; fieldwork and reporting time will be budgeted after planning for this audit is completed.

C. ANALYSIS OF REPORTS ISSUED

For 2005, the Internal Audit Office estimated that 20 projects would be completed for the year. Fourteen projects were completed in 2005 as shown in the chart below. The chart also shows an analysis of reports issued over the past eight years.

YEAR	(Jan-Mar) Qtr 1	(Apr-Jun) Qtr 2	(Jul-Sept) Qtr 3	(Oct-Dec) Qtr 4	Total
1998	0	1	3	10	14
1999	2	3	1	11	17
2000	3	1	2	10	16
2001	1	4	2	8	15
2002	1	1	2	10	14
2003	0	3	3	6	12
2004	1	1	1	9	12
2005	3	5	2	4	14

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D. FOLLOW-UP ADMINISTRATION

A follow-up report was performed at 2005 year-end to determine the status of management's actions on outstanding recommendations made by the Internal Audit Office. This follow-up encompassed outstanding recommendations from 1991 - 2004. Management provided information on the current status of implementation for any outstanding recommendations. The Internal Audit Office reviewed this information and conducted necessary procedures to determine that the information provided by management was complete, accurate, and reliable.

Results of our 2005 Annual Follow-Up review indicated that management had either completed or partially completed 87% of the recommendations made during the period December 31, 1991, through December 31, 2004. We believe that this implementation rate is indicative of management's concurrence with the recommendations in addition to the effectiveness of the Internal Audit Office in accomplishing its mission as outlined in the City Charter, Section 4.25.

Among the recommendations made:

- 83% of the outstanding recommendations were determined to be complete because the action management had taken was sufficient to mitigate the control deficiencies.
- 4% of the recommendations were determined to be partially complete because the action management had taken was not sufficient to mitigate the control deficiencies.
- 3% of the recommendations were determined to have no progress because management had taken no action to mitigate the control deficiencies.
- 10% of the recommendations were determined to be no longer applicable due to either organizational, process, or procedural changes.

[Status Note: Please refer to IAR 220705-13: 2005 Annual Audit Follow-Up for the detailed report on the outstanding audit recommendations.]

E. OTHER PROJECTS

The following summarizes special projects performed by the Internal Audit Office for 2005.

Various Miscellaneous Requests

At the request of the City Council, the Internal Audit Office completed several miscellaneous projects including: Annual Report of Internal Audit Office Operations; Request for Information on Community Development (Loan Program and Vendors) and Port City Utilities; Review of Time Warner Cable Contract; Review of a Citizen's Water Billing Charges and the McNeill Pumping Station Water Museum; and, Follow-Up on Payment of Louisiana Board of Ethics Fine for SAA Board Member.

Electronic Document Management

Started during 2002, the project involves creating a shared electronic database of audit documents and records used in audit work. The database consists of audit reports, audit programs, audit work paper forms, City Council and Audit and Finance Committee minutes,

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audit needs, legal opinions, management letters, etc, used in audit work and research. In the past, this information was stored in paper files and staff members were required to manually locate information from the hard copy files, resulting in inefficiencies of operations. The Internal Audit Office has now compiled this information in a shared electronic database accessible to all staff members, which has resulted in efficiencies of operations. Specifically, the process of capturing, indexing, storing, retrieving, searching, and managing these documents is much easier. For 2005, the work performed included editing, for improved readability, the old information that had been scanned into the database, as well as, maintaining current data.

Electronic Timekeeping System

Developed in-house by the Internal Audit Office in 2005, this system provides a more efficient process for capturing, summarizing, reporting, and monitoring time charged by auditors to audits and projects.

Updating Internal Audit Office Policies and Procedures Manual

The last complete update of office policies and procedures occurred approximately 11 years ago. Some work on this project was completed during 2005 and the updated manual is expected to be completed during 2006.

External Audit Assistance

The Internal Audit Office provided assistance to the external auditors in conducting an audit of the City's federal programs. As a result of the assistance provided, additional fees paid to the external auditor were reduced.

PART II: NON-AUDIT ACTIVITIES

A. FRAUD HOTLINE PROCESSING

The Internal Audit Office maintains a fraud hotline to report allegations of fraud, waste, and abuse. Hotline allegations may be made by phone, email, or office visit. During the reporting period, nine allegations of possible fraud, waste, and abuse were reported on the ***Fraud Hotline***. Work on fourteen allegations, including some previously carried over, was completed. One allegation remains open pending litigation. Allegations received may not result in a formal investigation and report.

[Status Note: Please refer to the Fraud Hotline Activity Report for January 1 through December 31, 2005, dated January 31, 2006, for a detailed explanation of the status of the fraud hotline allegations.]

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B. PROFESSIONAL DEVELOPMENT

The current staff of the Internal Audit Office provides the City of Shreveport with experienced professionals who are knowledgeable in governmental operations. There are six professional auditors and one administrative assistant. Professional degrees and certifications held by the staff include: seven Bachelors degrees, three Masters degrees, three Certified Internal Auditors (CIA), one Certified Public Accountant (CPA), three Certified Fraud Examiners (CFE), one Certified Information Systems Auditor (CISA), and three Certified Governmental Financial Managers (CGFM). Staff members acquire continuing training and education in order to ensure that they maintain proficiency and competency in the internal auditing field. All professional staff are in compliance with continuing professional education requirements. Audit staff also maintain membership in several professional associations and serve as elected officers (Vice-President and Secretary/Treasurer) in one organization. Current affiliations include the National Association of Local Government Auditors, Louisiana Society of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Government Finance Officers Association, and the Association of Government Accountants.

PART III: CONCLUSION

We hope this FY 2005 Annual Report has provided helpful information to those interested in gaining an understanding of the performance of the Internal Audit Office. During FY 2006, the Internal Audit Office will place emphasis on increasing audit coverage and utilizing automated audit tools to assist in audit analysis and testing, planning, and administration of audit work. Accomplishment of these goals should enable us to assist management in ensuring greater efficiency, effectiveness, and accountability over city operations.